

The ROK Economy at the Starting Line of the 21st Century (Summary)

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The economy of the ROK has accomplished a phenomenal recovery since the economic crisis of late 1997. In this process, four major reforms have been implemented: reforms of the financial market sector, reforms of the structure of the private corporate sector, reforms of the public sector and reforms of the labor market. Accordingly, the economy can be said to have somehow extricated itself from its crisis situation as a result of these reforms. The global economic situation surrounding the ROK is also breaking free from the chaos in which it found itself in the 1980s and 1990s. The positive effect that the devaluation of around 50% has had on the ROK, which is strongly dependent on exports for its economic growth, is undoubted. However, with the confusion caused by the crisis continuing to the present day, it cannot be said that the current positive growth is definitely stable.

While focusing on major macro-economic indicators and trends in major sectors in the ROK economy since the 1990s, this paper considers the economic variables relating to these, as well as various problems and issues in each sector, and attempts to examine the future economic growth path of the ROK.

Following the period of high economic growth in the 1980s and the transition period in the 1990s, the ROK's economy is now, not that long after the economic crisis, experiencing positive growth while facing many underlying problems, but the range of this growth is clearly falling. As the degree to which exports contributed to growth increased significantly after the economic crisis, due to a substantial devaluation of the exchange rate, net exports experienced an upturn into positive figures and have come to support overall growth by supplementing domestic demand, which had fallen.

First of all, looking at consumption sectors, it seems that, although the share of consumption expenditure in income is relatively high and a shift in the consumption structure of household finances from a quantitative increase to a qualitative improvement is being seen, households are certainly not in a position in which they can enjoy material affluence. An overall rise in incomes is taking place, but the value of borrowing in the household sector is increasing while the savings rate and propensity to save is declining; at the same time, income differentials are broadening while the propensity to consume is rising to an abnormal degree, not even seen before the crisis, and we can guess that a sense of exhaustion and anxiety about the future is spreading throughout the daily lives of almost all the people.

In the investment sectors, the level of investment activity in the manufacturing sector is on an upward trend and the share of capital investment is also rising. This is the result of a response based on the expectation of an active expansion in the market attributable to export industrial sectors, particularly the IT and automotive industries, which played a significant role in the post-crisis recovery process. More specifically, the index of production capacity in the manufacturing sector rose extremely rapidly, while average capacity utilization bounced back within a short period of time from the heavy slump immediately after the crisis, recovering in 1999 to pre-crisis levels of around 98%. However, at the same time, the pattern of disparities in growth between industrial sectors became apparent, with some industries growing and others failing to do so; it was discovered that, although the degree of growth in growing industries was large, the number of industries that were actually growing was low, while the degree of stagnation in non-growing industries was exceedingly severe and there were many industries that were failing to grow. In general, the dependence on exports for domestic economic growth became more obvious.

In analyzing each sector individually, we will start with the labor market; although the trend towards a declining birthrate and an ageing population is progressing, the unemployment rate among young workers is high and the proportion of workers in temporary or daily employment is increasing, and the labor market has not regained its equilibrium following the post-crisis chaos. The chaos in the labor market may partially be attributable to micro-economic factors, such as wages, labor productivity and the problem of shorter working hours, but the macro-economy as a whole is viewed as being the main factor in the structural discrepancies. At the same time, with regard to price trends, although substantial inflationary pressures are gradually strengthening, it is not expected that these will slow down economic growth. However, if the recent rise in import prices continues, it is expected that inflationary pressures will become apparent. In financial markets, although several issues remain, such as management methods and greater transparency in financial structures, trends in the various major variables suggest that there is nothing that could become a significant obstacle. Against the background of such developments as the shift of the current account into the black and the increase in foreign investment, foreign exchange reserves and net external credit are also rising.

Summarizing the domestic economic situation as outlined above, the following factors should be rated as having made a significant contribution to the recovery after the crisis and the positive growth that followed it: i) efforts to expand exports through proactive investment activities and increases in production capacity in the IT, petrochemical and automotive industries, and the results thereof; and ii) the response to domestic commodity price policy implemented by policymakers in order to deal with significant exchange rate fluctuations,

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With regard to outstanding policy issues, urgent responses are needed *vis-à-vis* the following three points, but we should draw a distinction between whether they are due to short-term business cycles or can be ascribed to medium- to long-term structural problems. First of all there is the current state of unemployment and the chaos in the labor market; secondly, there is the stabilization of the daily life of the people; and thirdly, there is the problem of disparities between industries in terms of growth rates. All these are major sources of concern with regard to stable growth in the future. These issues are closely related and there is a fundamental need for both short-term micro-economic measures and medium- to long-term macro-economic prescriptions, in order to deal with the structural discrepancies in the macro-economy as a whole.

If we piece together the arguments in this paper, we can see that the positive growth experienced following the crisis up to the present day certainly cannot be viewed as a stable trend. This growth rate could change considerably depending on the direction of changes in the exchange rate and the expansion of domestic demand. Further outstanding policy issues should be recognized as being pathological phenomena attributable to the transition phase, arising from structural inequalities or discrepancies between quantitative growth and qualitative development; these may well be due to short-sighted compromises regarding environmental changes relating to the ROK's economy and the lack of a medium- to long-term strategy with regard to this.

However, the following must not be forgotten in the decision-making process aimed at solving these problems. It is a fact that the repetitive vicious circle of the policy stance held hitherto, in which talk took precedence over action, or inadvisable interventions were made in or controls imposed on the market, ultimately caused serious structural discrepancies in the national economy and gave rise to malignant issues. This vicious circle and the question of how to break free of it may well be the biggest problem facing the ROK's economy. Judging by the lessons learned from the prolonged recession in the Japanese economy, the precedence of talk over action should be avoided and, looking back at the ROK's economic situation in the past, indiscriminate intervention in the market is certainly not desirable. At present, within the economy of the ROK, we need to strive to create an environment conducive to stable and sustained economic growth by promoting a more mature democratic system and strengthening the functions of the market mechanism.